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Real Estate Economists, Appraisers and Counselors

Number 18

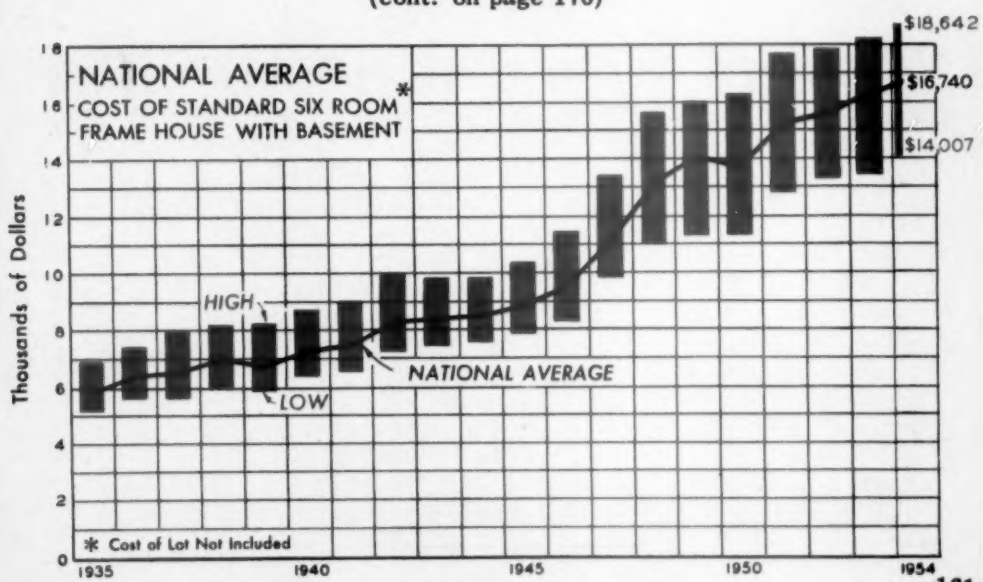
CONSTRUCTION COSTS CONTINUE MODEST GAINS

DURING the last year the average cost of building our standard six-room frame house has risen between 3 and 4%. In those cities where the cost is figured without a basement, the average rise was 3%. (These cities are indicated by a red asterisk on the following charts and table.) Where the cost includes full concrete basement, the average increase was 4%.

Probably the construction cost factor subject to the quickest change is the contractor's profit. In all of our construction cost figures we use a factor of 10%, knowing that in many instances in the past it has been more. The other costs are based on material prices and wage scales reported to us by dealers and contractors in each of the cities covered in this bulletin.

In addition to the 52 cities with cost data running back to 1935 (see the following charts), we have compiled a table of construction costs in 22 other cities (see page 168). So far, back data have not been available on these 22 cities, but we will try to at least carry on our cost series from now on.

(cont. on page 176)



TOTAL CONSTRUCTION COSTS OF A STANDARD SIX ROOM FRAME HOUSE BY CITIES

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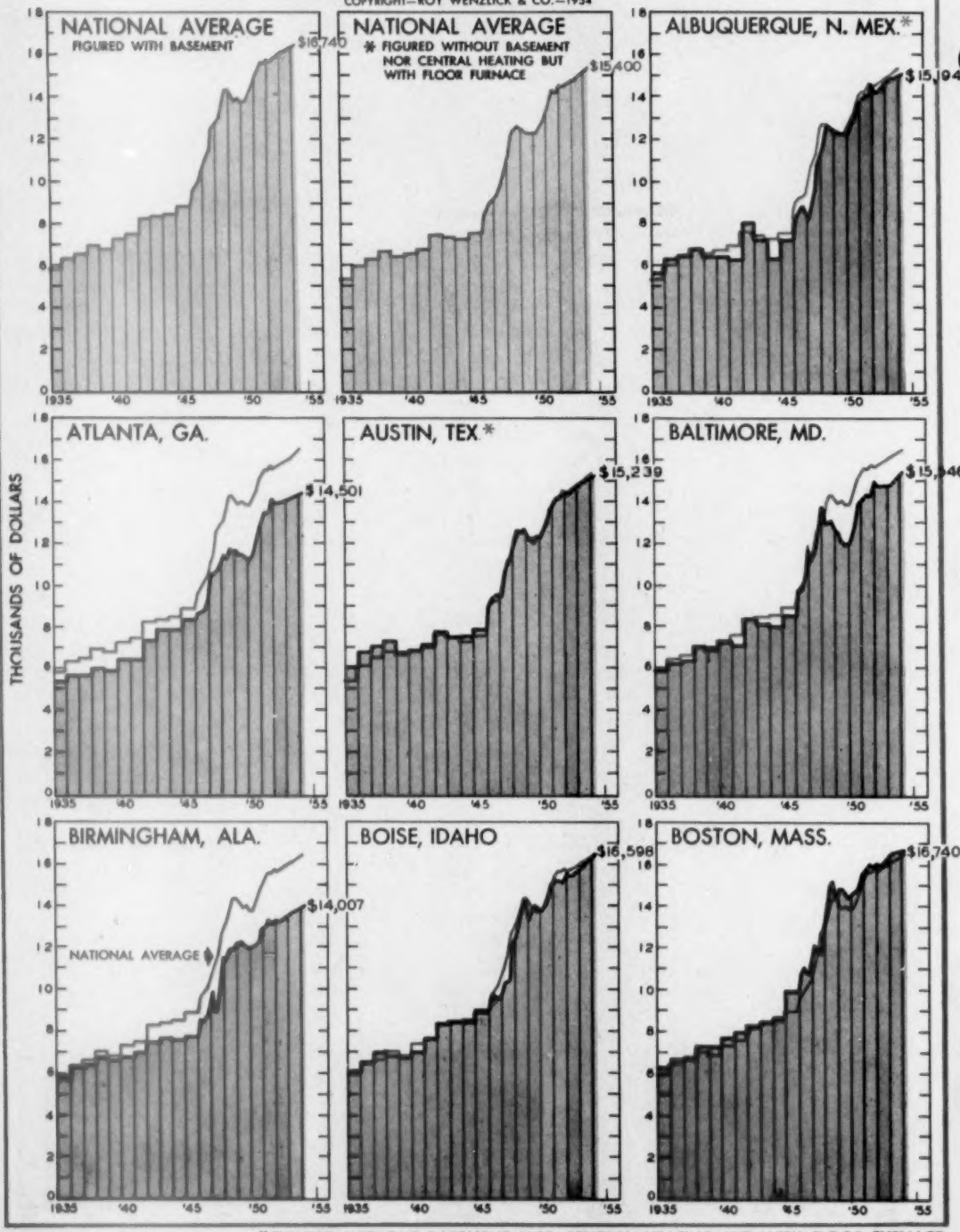

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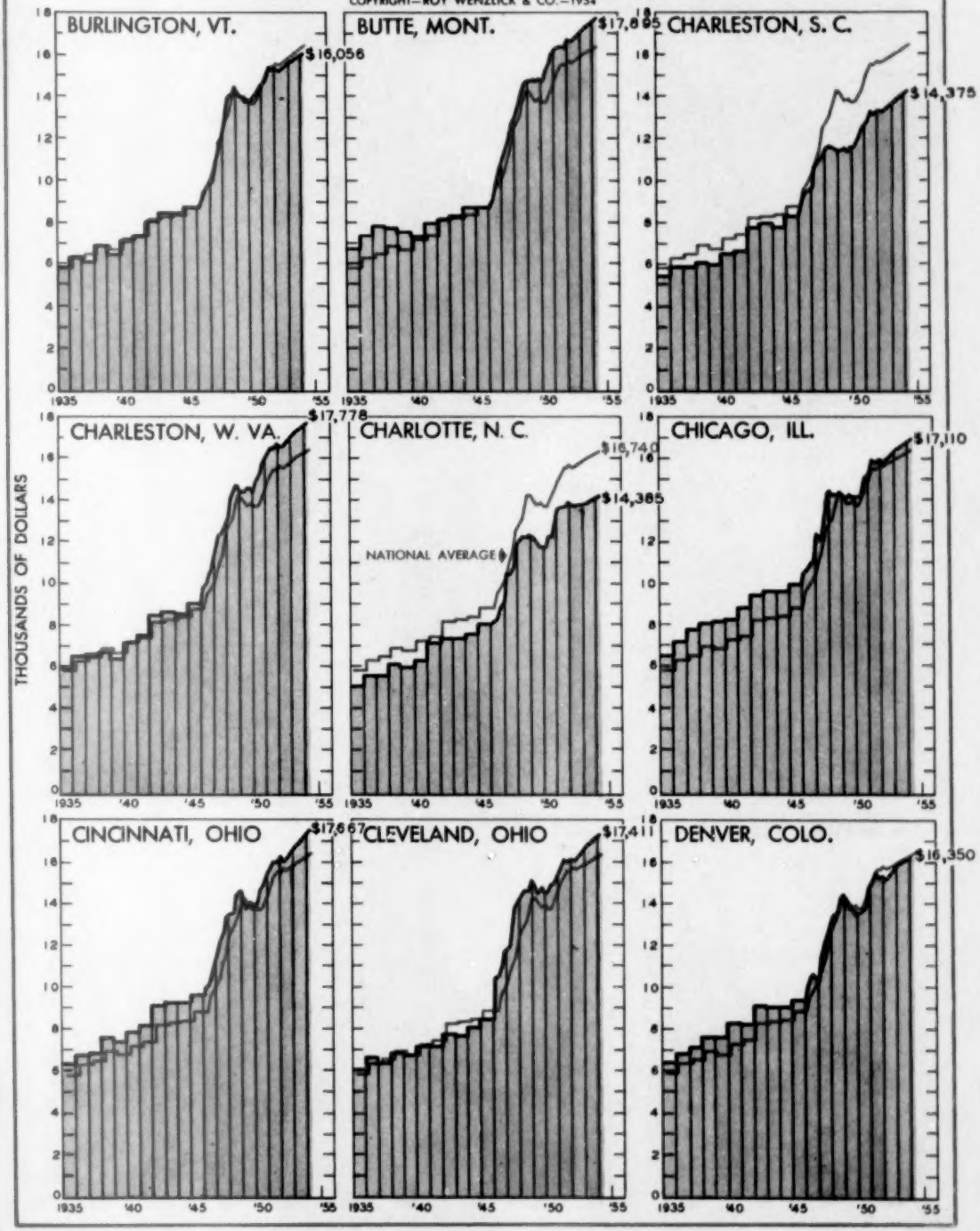

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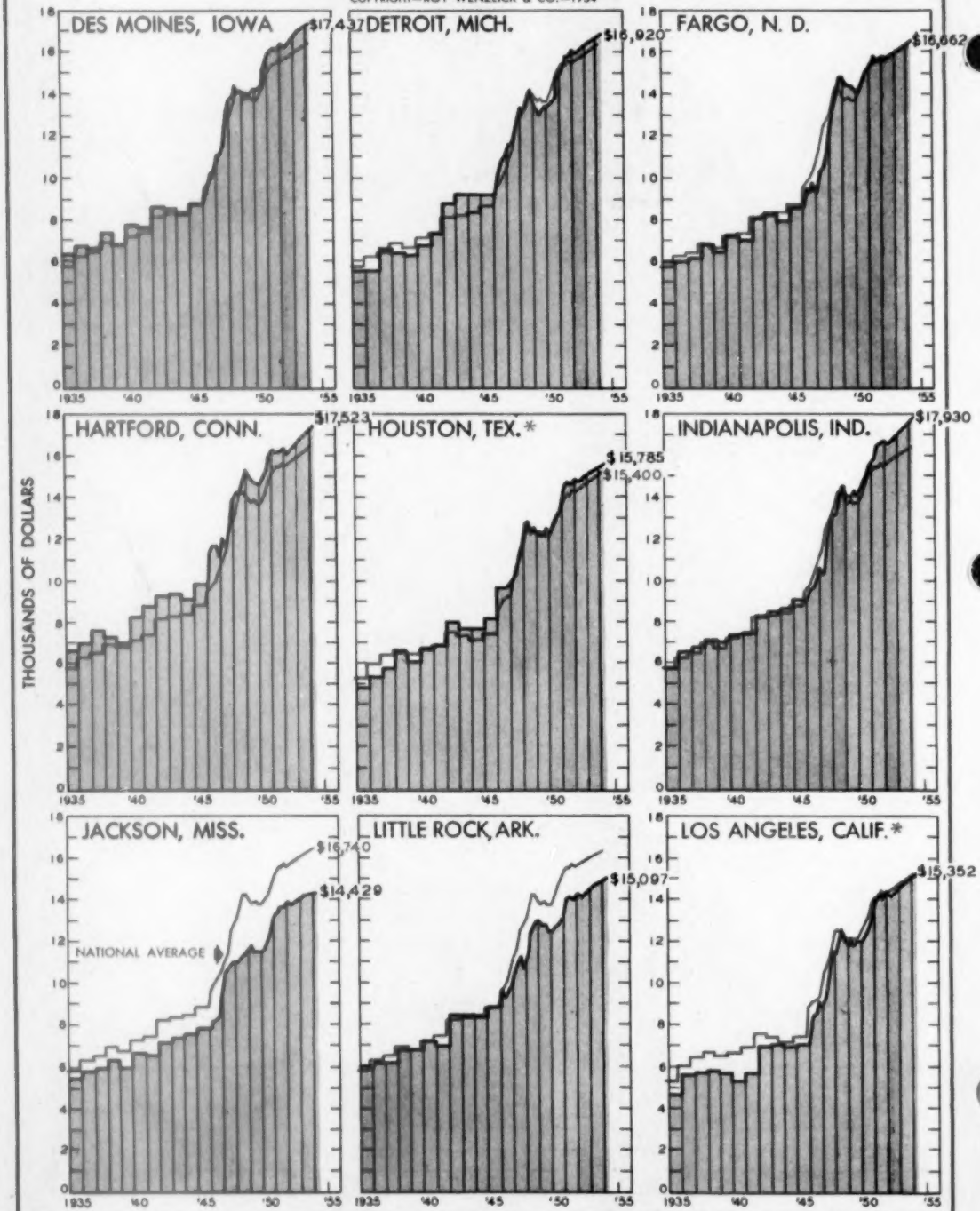

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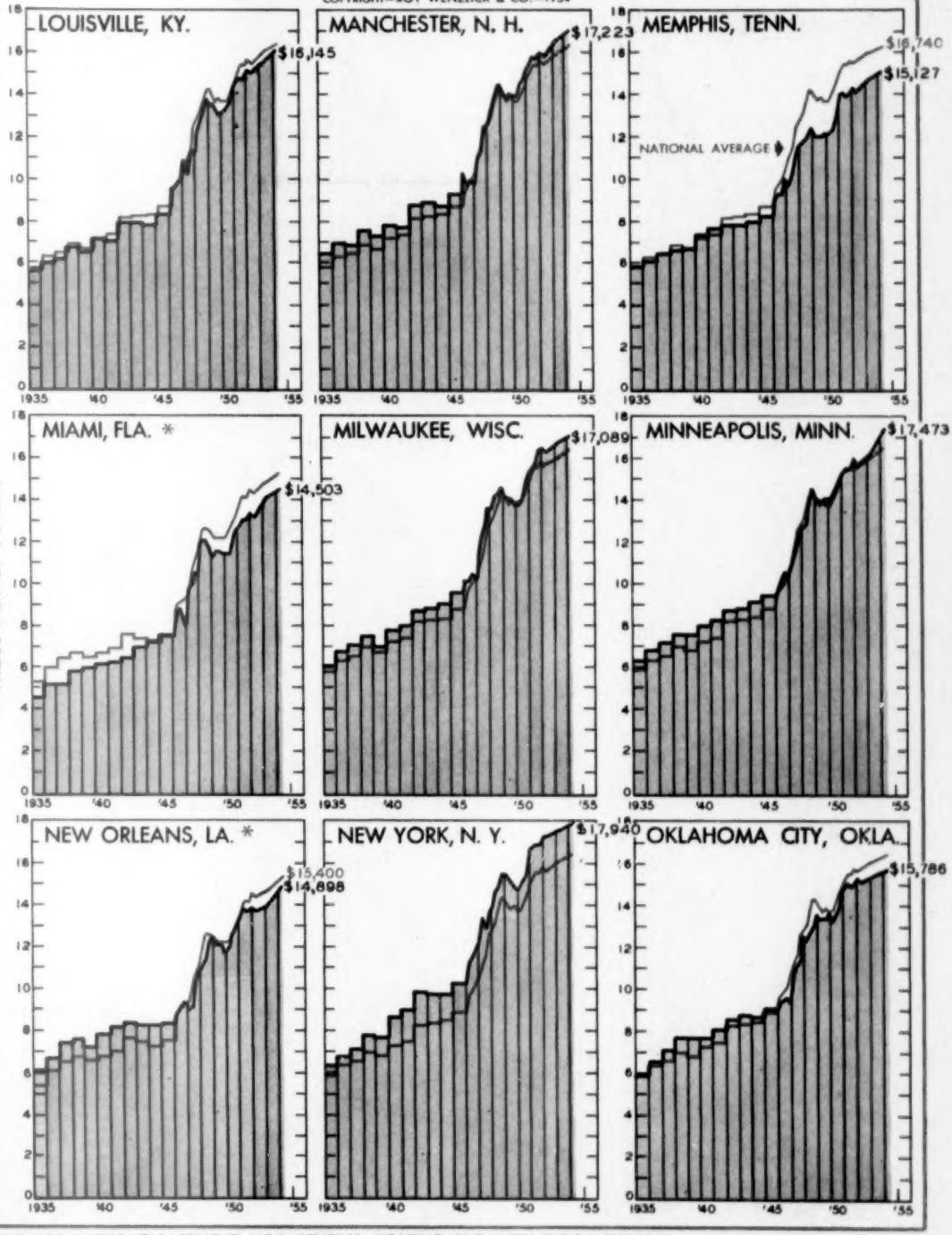

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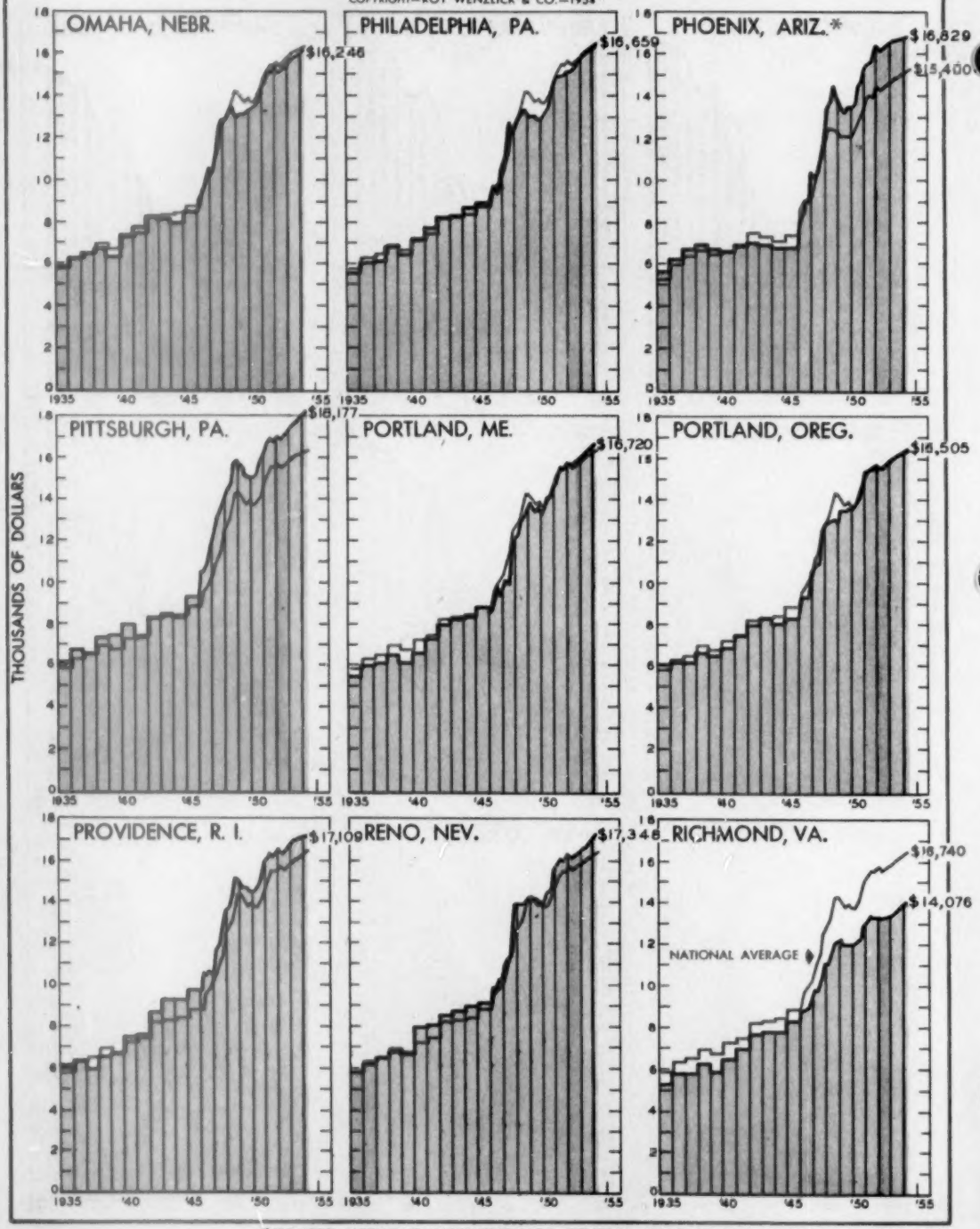

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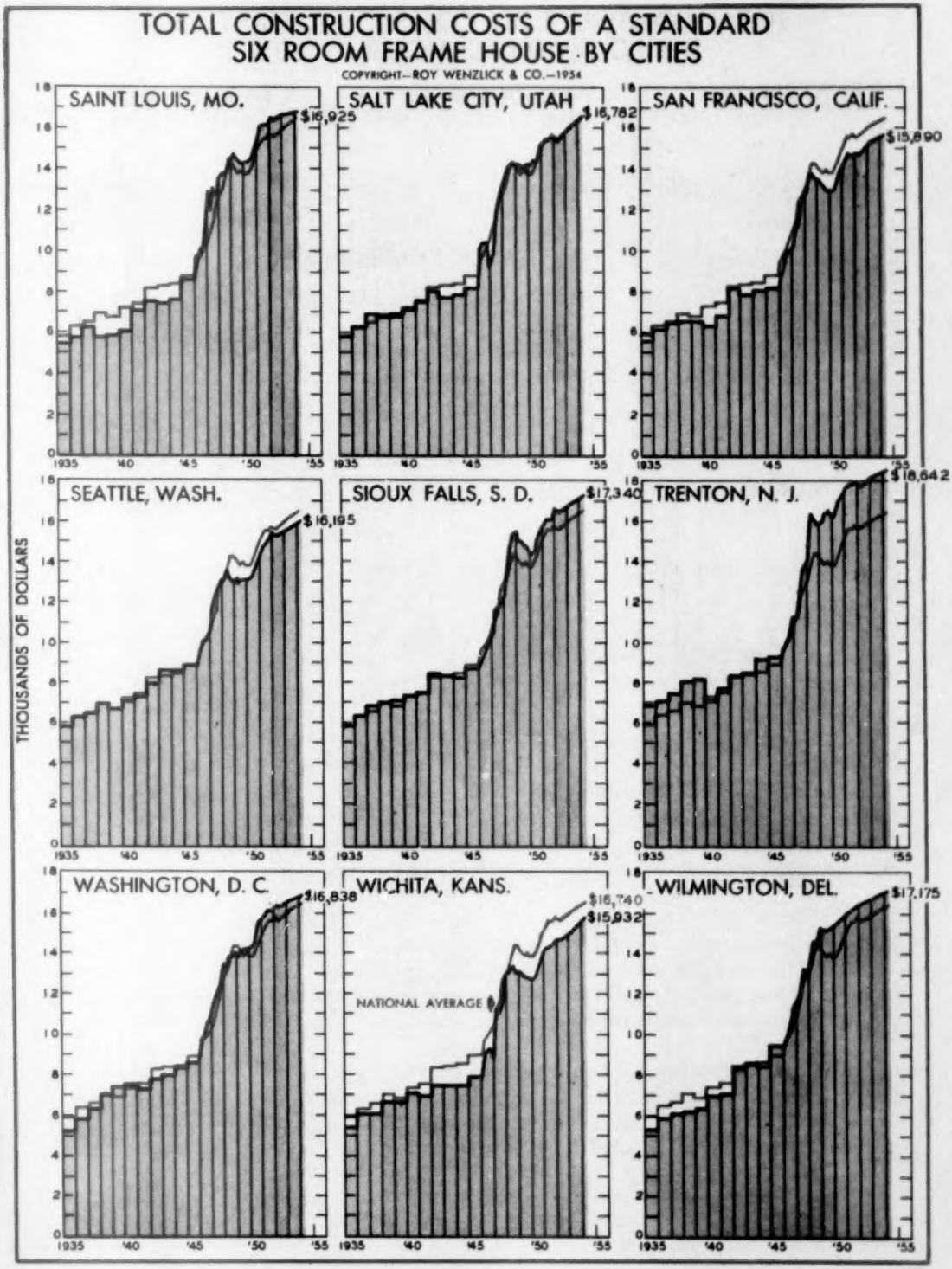


TOTAL CONSTRUCTION COST OF
STANDARD SIX-ROOM FRAME HOUSE
IN CITIES NOT INCLUDED ON CHART STUDY

City	Total Cost	City	Total Cost
Akron, Ohio	$17,067	Mobile, Ala.	$14,841
Albany, N. Y.	17,043	Nashville, Tenn.	15,510
Amarillo, Tex.*	16,722	Peoria, Ill.	17,818
Chattanooga, Tenn.	14,842	Roanoke, Va.	13,614
Columbus, Ohio	16,592	Rochester, N. Y.	17,950
El Paso, Tex.*	15,252	San Diego, Calif.*	15,304
Jackson, Mich.	17,377	Shreveport, La.*	14,071
Jacksonville, Fla.*	14,567	Spokane, Wash.	15,218
Kansas City, Mo.	15,770	Tacoma, Wash.	15,700
Long Beach, Calif.*	15,651	Tulsa, Okla.	16,336
Madison, Wis.	17,074	Worcester, Mass.	17,161

*Cost does not include basement.

CHANGES IN CONSTRUCTION COST COMPONENTS

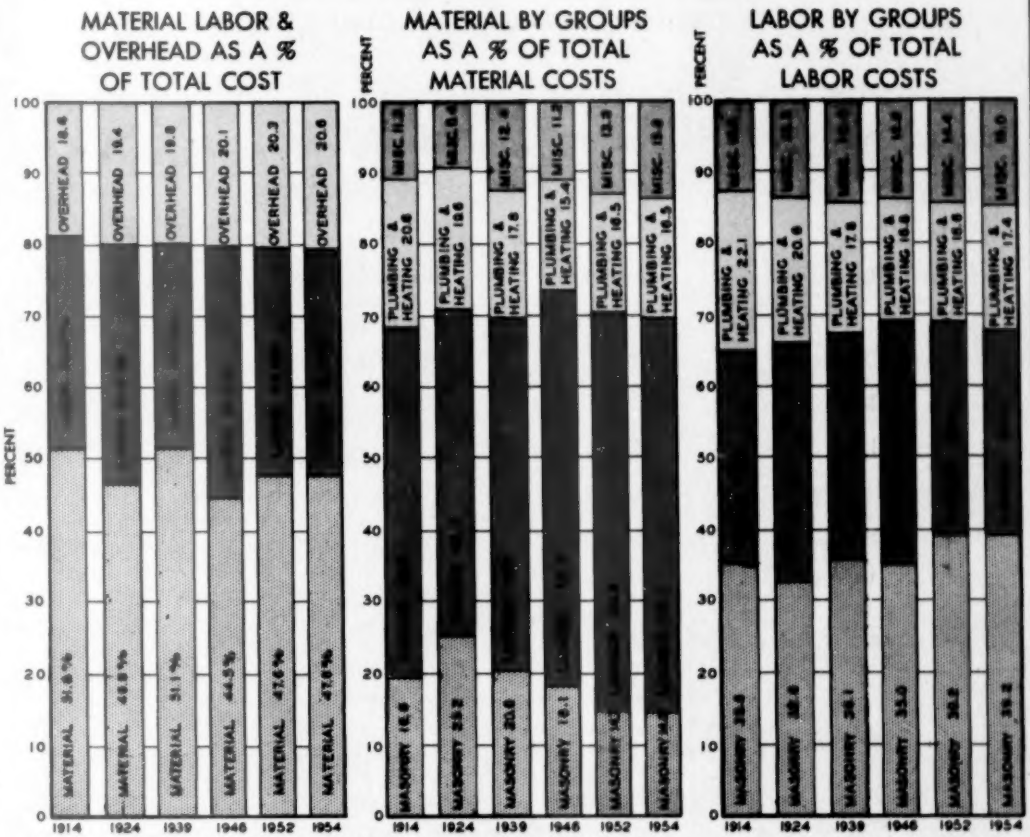
THROUGHOUT the years, the cost of materials in our standard six-room frame house has made up roughly 50% of the total cost. However, since 1939 the trend has been for this percentage to decrease slightly, while the proportion of labor costs and overhead has risen by a small amount.

Insofar as different materials are concerned, the most significant factor has been the increased proportion of the cost taken up by lumber and millwork items, up to 55% of material cost in 1954 from 49% in 1939. During the same period the cost of tile, concrete, plaster and masonry materials has dropped from 20.8% of total material cost to 14.6%.

The cost of putting these materials into place has shown a reverse trend. Since 1939, the labor cost for the masonry items has risen from 36.1% of total labor costs to 39.2%. Conversely, the carpenter expense for our house has dropped from 31.7% of total labor costs to 28.4%.

These and other changes are shown by the three bar charts and the table on the opposite page.

PERCENTAGE RELATIONSHIPS IN CONSTRUCTION COSTS OF STANDARD SIX ROOM FRAME HOUSE



MATERIAL, LABOR & OVERHEAD AS A PERCENTAGE OF TOTAL COST

Year	Material	Labor	Overhead
1914	51.6	30.0	18.4
1924	46.8	33.8	19.4
1939	51.1	29.1	19.8
1946	44.5	35.4	20.1
1952	47.6	32.1	20.3
1954*	47.6	31.8	20.6

MATERIAL BY GROUPS AS A PERCENTAGE OF TOTAL MATERIAL COSTS

Year	A	B	C	D
1914	19.6	48.6	20.6	11.2
1924	25.2	45.8	19.6	9.4
1939	20.8	49.0	17.8	12.4
1946	18.1	55.3	15.4	11.2
1952	14.7	55.6	16.5	13.2
1954*	14.6	55.1	16.5	13.8

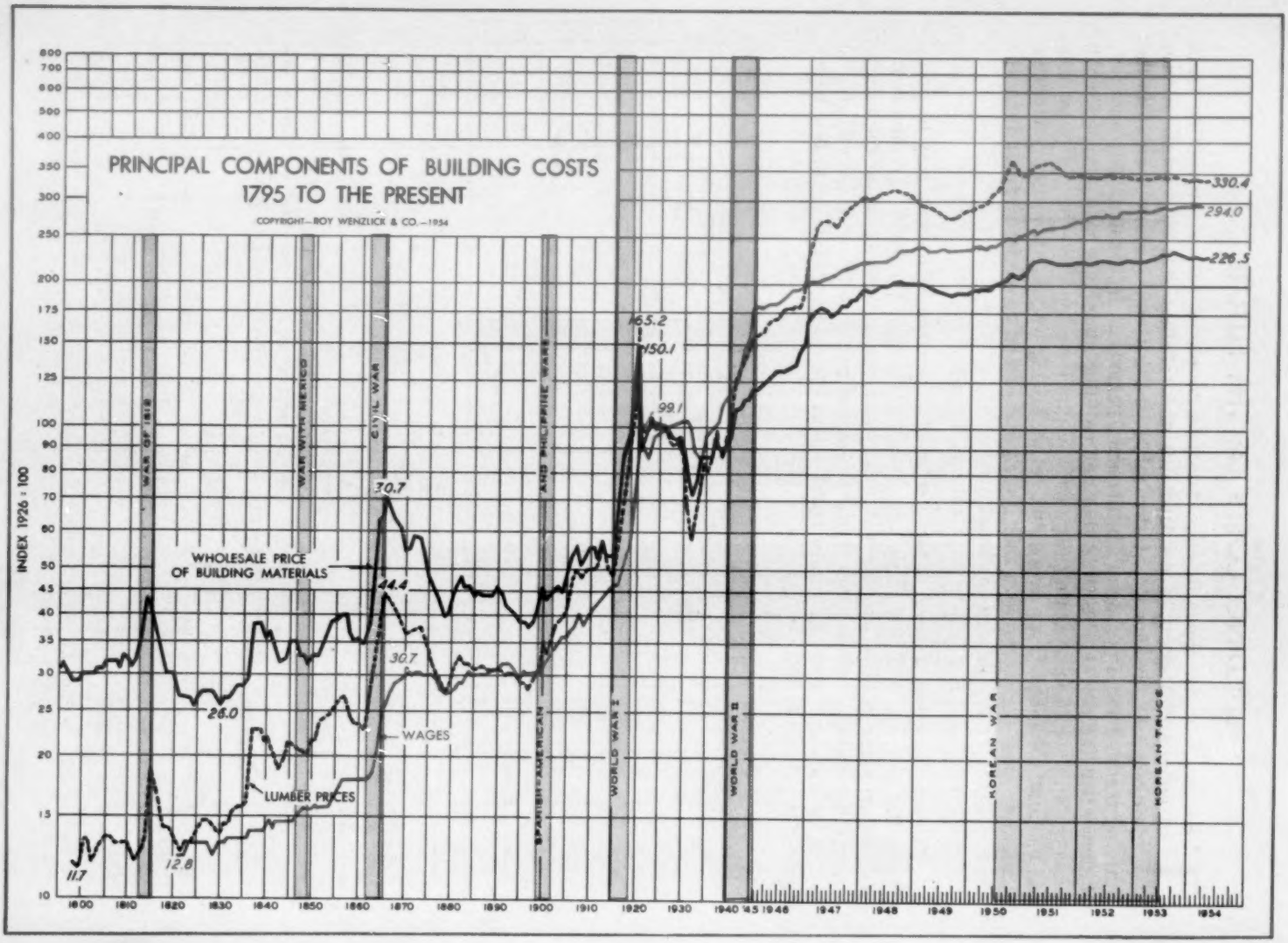
LABOR BY GROUPS AS A PERCENTAGE OF TOTAL LABOR COSTS

Year	A	B	C	D
1914	35.5	29.8	22.1	12.6
1924	32.8	33.3	20.6	13.3
1939	36.1	31.7	17.8	14.4
1946	35.0	34.2	16.8	14.0
1952	39.2	29.8	16.6	14.4
1954*	39.2	28.4	17.4	15.0

MATERIAL, LABOR, OVERHEAD & PROFIT AS % OF TOTAL COST

	A		B		C		D		
Year	M	L	M	L	M	L	M	L	Overhead & profit
1914	10.1	10.6	25.1	8.9	10.6	6.6	5.8	3.8	18.5
1924	11.8	11.1	21.4	11.2	9.2	6.9	4.4	4.5	19.5
1939	10.6	10.5	25.1	9.2	9.1	5.2	6.3	4.2	19.8
1946	8.1	12.4	24.6	12.1	6.8	5.9	5.0	5.0	20.1
1952	7.0	12.6	26.5	9.5	7.9	5.3	6.3	4.6	20.3
1954*	7.0	12.5	26.2	9.0	7.9	5.5	6.5	4.8	20.6

*April 1954.


PRINCIPAL COMPONENTS OF BUILDING COSTS
1795 TO THE PRESENT
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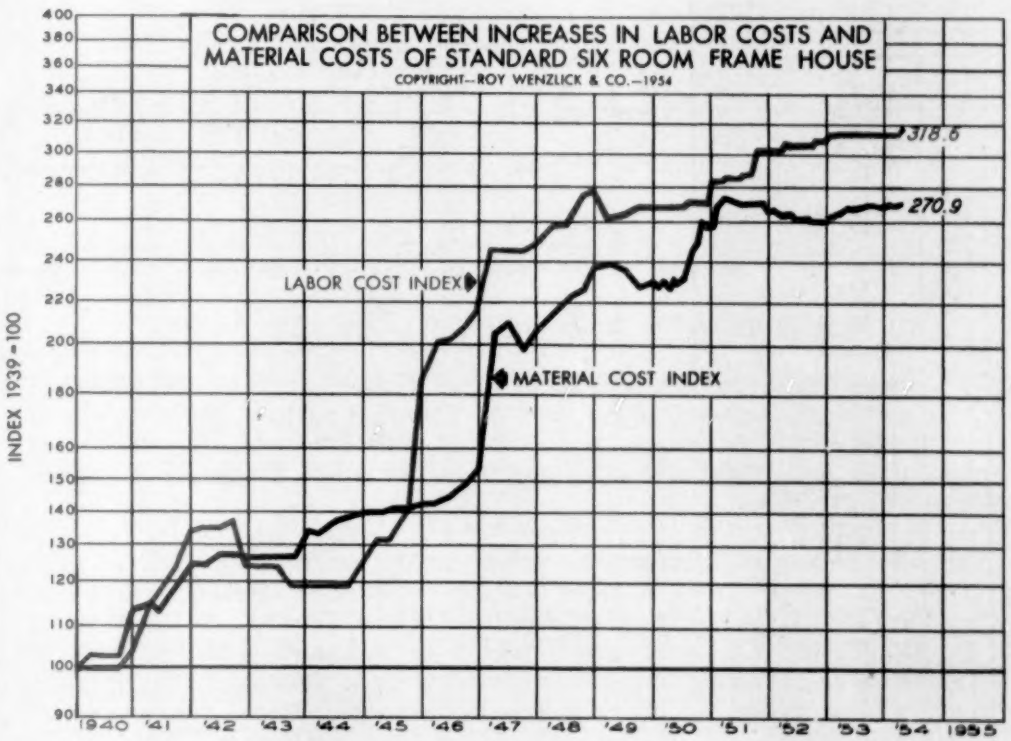
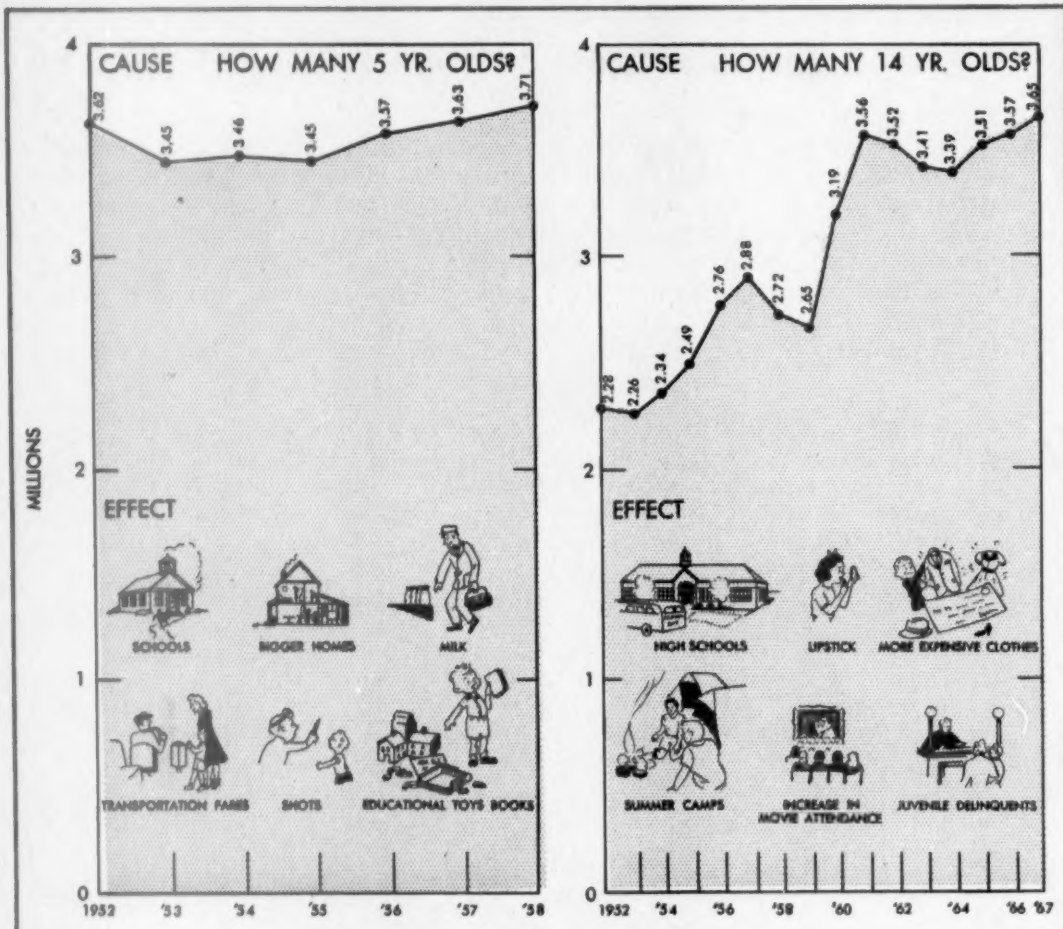
INDEX 1926 = 100
WHOLESALE PRICE OF BUILDING MATERIALS
WAGES
LUMBER PRICES
WAR OF 1812
WAR WITH MEXICO
CIVIL WAR
SPANISH-AMERICAN AND PHILIPPINE WARS
WORLD WAR I
WORLD WAR II
KOREAN WAR
KOREAN TRUCE
70.7
44.4
30.7
26.0
12.8
11.7
165.2
150.1
99.1
390.4
294.0
226.5

BUILDING COSTS OF THE FUTURE

THE chart on the opposite page details a couple of rather interesting facts of economic history, and it contains some rather startling implications. For one fact, it shows that throughout the nation's history, wages in the building trades have dropped very little during periods of depression. For another, it shows that the prices of both lumber and building materials have dropped much more rapidly and considerably farther than have wages. We do not point this out because we abhor price drops and relish falling wages. We simply mention it because most people believe that wages and prices move in more or less accord. Historically, this is not true.

The startling implication is the hint at what construction costs may be some day in the future. Will No. 2 yellow pine 2 x 4's sell for $250 per thousand? Will a carpenter rate $6 an hour? And, if so, can anyone guess at the bricklayer's wage scale? The ever-rising peaks suggest that many of us will live to yearn for the days when we could build a four-room bungalow (with full basement) for only $12,000.



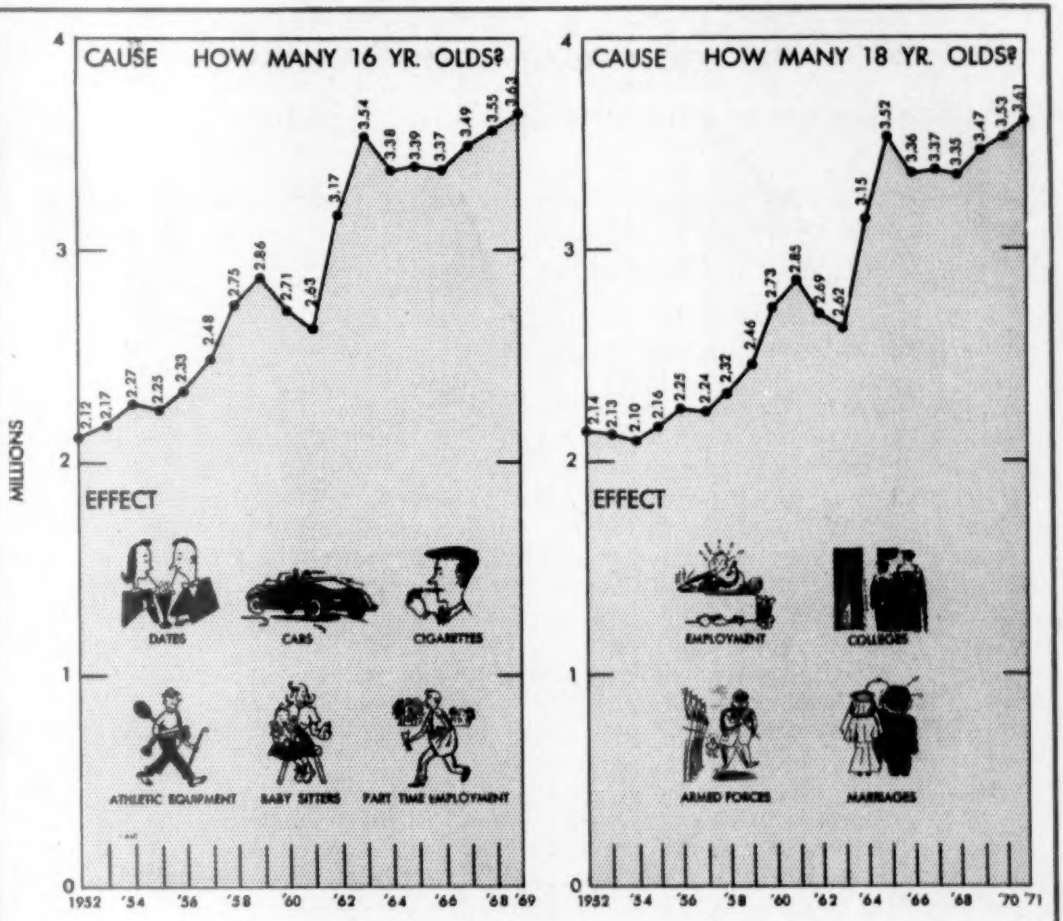


REAL ESTATE AND POPULATION GROWTH

FOR the past several years, we have all read many articles on the economic impact of the high and rising number of postwar babies. Since the end of the war, there have been more than 30 million kids born in the United States, and if the present production pattern is maintained, there will be another 20 million by 1960.

In order to help you interpret the meaning of this population growth, we have prepared the charts* shown on these two pages. We have labeled these charts "Cause and Effect," and they show the number of kids that will reach the ages of 5, 14, 16, and 18 for the next several years. In the shaded areas of the charts are sketches representing the economic effects these kids have as they reach the various age levels.

*These charts appeared first in the Real Estate Trends Bulletin for March 1952, pages 100 and 101.



You can see that the number of 5-year-olds affects the amount of business done in a good many of the retail and service industries.

But they also have an effect on real estate by raising the requirements for extra rooms. Actually, this effect is usually felt some time before the children reach 5, and you can probably move the dates back a couple of years to time this effect a little closer. A look at this chart will quickly show you why two-bedroom houses are getting harder to sell.

Undoubtedly, the most discussed effect of 5-year-olds is the increasing demand for school rooms. All of us are familiar with this need, but apparently the situation (like most) will get worse before it gets better. In 1958, there will be 255,000 more kids enrolling in kindergarten than there were in 1953, so you can see from these figures and from the chart on 5-year-olds that the demand for elementary school rooms is in an upward trend. However, while the need for school rooms is a real need in many areas, it is a much overrated need in other

areas. Don't apply national figures, and don't let others apply national figures to your local or neighborhood school problem. Many school rooms are badly needed on a national basis, but that does not mean that every neighborhood needs a new school.

While we are on the subject of schools, take a look at the chart on 14-year-olds and dwell for just a moment on the need for high schools a few years hence. The other effects that 14-year-olds have are largely indirect ones insofar as real estate is concerned. They increase the demand for various goods and services, which, in turn, raises the income of commercial stores and thereby contributes toward maintaining or increasing rents and property values.

When kids become 16, most States allow them to operate automobiles, and some stimulation can be expected in gasoline sales and at the used-car lots. The girls begin to wear more expensive clothes, costume jewelry and join sororities. Both boys and girls usually begin to draw larger allowances and start smoking and drinking to some extent. By this time most of the girls are well experienced as baby-sitters and many of the boys are available for the part-time labor market. Their interests are more widespread and their tastes become a little more expensive. Either through their own efforts or through the indulgence of their parents they acquire the money to buy many of the things they want. We have felt for a long time that merchants fail to exploit this small but important segment of the market. After all, buying habits formed at age 16-17 may be easily broken - but however weak these habits may be, they are probably better than none at all.

At 18 most kids reach what used to be called the "crossroads" of life. In this complicated day it would probably be more accurately described as a "clover-leaf." They usually take one of four choices. They go to college, go to work, get married, or enter the armed forces. Whatever happens, they are through being treated as kids. They become more important as what statisticians call "spending units." Most of them enter the labor force and begin spending their earnings at a brisk rate. Those who enter college are certainly the cause of considerable spending, not only for tuition and books, but for clothes and the social life usually found in colleges. The cost of training, equipping and maintaining our armed forces is constantly climbing, and, therefore, each boy who enters the armed forces becomes indirectly and directly an important spender. Perhaps those that marry at 18 have the least effect on the economy. This is a comparatively small number, and for a while they generally live with one of their in-laws. They have relatively little effect on the housing market at that age. Both of them usually work, or one works and the other goes to school, but whatever the case, the fact that they marry at 18 has little economic significance.

The chart shows that the number reaching 18 turns up in 1955, and is in a constantly rising trend during the next 15 years. This means that more colleges will be needed, more jobs must be provided by business, more goods must be produced, and that the draft requirements will be easier to fill.

NONAGRICULTURAL EMPLOYMENT IN THE UNITED STATES

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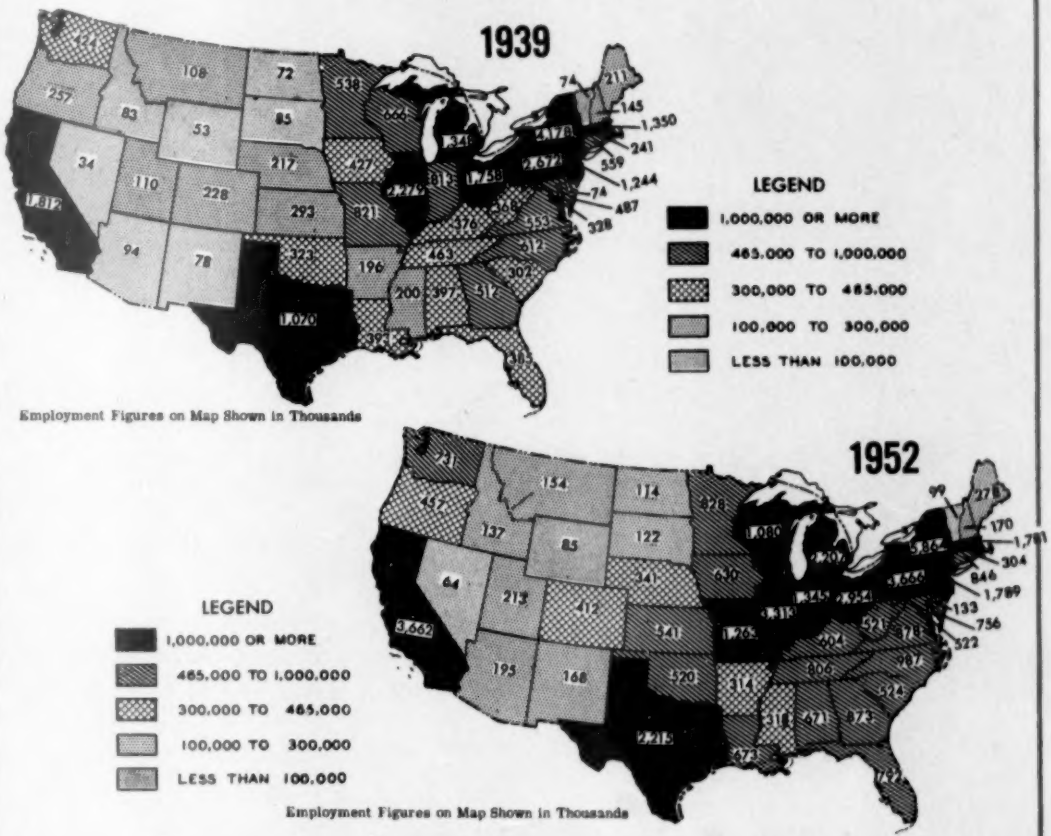

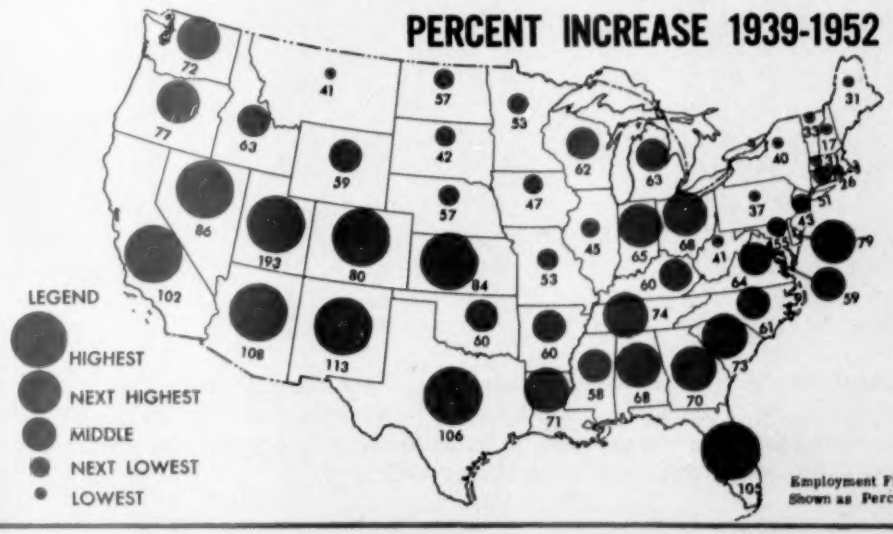

CONSTRUCTION COSTS CONTINUE MODEST GAINS

(cont. from page 161)

The cities where construction costs of our house are the highest are Trenton, Pittsburgh, and Rochester. Lowest costs are found in Roanoke, Birmingham, and Richmond. We still believe that the probabilities favor small price drops as the year runs on. Material and labor prices should remain fairly stable, with price movements in either direction being small. On the other hand, seasoned experience among members of the building trades and among the builders should result in greater efficiencies in labor and techniques. Moreover, the competition, now becoming somewhat keener, should bring unrealistic profit margins into line, but don't expect really large-scale competition so long as financing is made progressively easier.

On the inflationary side we have the new housing bill with its lower down payments and longer terms. Although not yet passed, it is deliberately designed to force-feed the building boom. We have arrived at a point where the builders frankly admit that there aren't enough buyers at present prices and present terms. The housing bill is designed to remedy that and to keep the boom rolling. While this bill (if passed in substantially its present form) will give impetus to the boom, we have two comments to make regarding it.

First of all, we think that it is unwise to continue to build 1,000,000 units a year unless demolition of obsolete housing is stepped up and a larger part of these new units used to replace the demolished housing. (This point will be covered more fully in the forthcoming Real Estate Trends Bulletin for April.)

Second, this bill, like its recent predecessors, eases credit to the point where the incentive for lower prices is largely removed. So long as it is possible to restore the slightest break in the market by lower down payments and longer terms, true price competition is not likely to appear on a large scale. So long as it is possible to translate a $1,000 price difference into a $5.07* increase in the monthly payment, purchasers will continue to shop for bargain financing more diligently than they shop for bargain prices. This practice of sugarcoating higher prices with more attractive terms has been the inflationary characteristic of all postwar housing bills. A certain amount of it is inevitable in any easy-payment plan. However, the bill now under consideration seems to go somewhat further along liberal lines than any of its predecessors.

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*30-year loan at 4½%.